M e m o r a n d u m

To: Panel Members

Date: May 23, 2002

From: Diana Torres, Manager
Peter DeMauro, General Counsel

Analyst: K. Campion

Subject: One-Step Agreement for **Saint-Gobain Performance Plastics Corporation** (www.saint-gobain.com)

CONTRACTOR:

- Training Project Profile: Retraining: companies w/out-of-state competition
- Legislative Priorities: Promotion of California's Manufacturing Workforce Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
  - Company Wide: 170,000
  - In California: 833
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: $62,400
- Substantial Contribution: $0
- Total ETP Funding: $62,400
- In-Kind Contribution: $92,208
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Orange
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

The California Manufacturers and Technology Association (CMTA) assisted in the development of the application at no cost to Saint-Gobain Performance Plastics.

NARRATIVE:

Saint-Gobain Performance Plastics (Saint-Gobain) manufactures products that are sold out-of-state and is eligible for Panel funding under the out-of-state competition provisions outlined in Title 22, California Code of Regulations, Section 4416(b) for companies classified as manufacturers that compete with other manufacturers located outside of California.

Saint-Gobain Performance Plastics is one of eight companies in the Plastics and Ceramics Branch of Saint-Gobain Corporation. Located in Garden Grove California, the company develops and manufactures engineered polymer parts used for the semiconductor industry; gaskets and pressure plates used for industrial, and commercial equipment; and, lip seals and spring-energized seals used in jet engines, watercraft propellers and space shuttle engines. The manufacturing processes include resin blending, and molding and heating of polymer materials, plastics that characteristically have high temperature resistance and low friction properties. These materials are then formed, machined, using Computer Numerical Control and conventional mills, drills, and lathes, and assembled to customer specifications. The Garden Grove facility houses three business units: Microelectronics, Engineer Polymer Products, and High-Performance Seals, and employs 308 full-time employees.

Beginning in 2001, the production of semiconductors and the need for new equipment to increase capacity dropped dramatically as a result of the downturn in the economy. Due to weak demand for all products associated with semiconductor manufacturing, Saint-Gobain's sales in the Microelectronics unit experienced a 75 percent drop, despite the recent investment of $4.8 million in facility and technology upgrades. Another challenge the company is currently facing is a tremendous customer demand for lower-priced products of high quality and reliability. Moreover, Saint-Gobain recognizes that because of rapid changes in manufacturing technology, the company needs to adapt more quickly to new manufacturing techniques. For example, most of the components the company currently manufactures in the Microelectronics unit will no longer be manufactured 18 months from now, but will be replaced with the next generation of products.

These technological challenges and customer demands have propelled the company to reassess the manufacturing operations. As a result, the company has outlined new, critical objectives for profitability, one of which is to lower manufacturing costs while continuously improving production and assembly techniques.

NARRATIVE: (continued)

Continuous Improvement Skills

The company recognizes that the key to implementing these new objectives requires a formal training program for employees. Therefore, they have made a conscious decision to move to a high performance workplace through the implementation of Continuous Improvement – Kaizen training. Kaizen (a Japanese term) fosters continuous, incremental improvement to create more value with less waste. Kaizen is a culture that focuses on eliminating waste in all systems and processes. The proposed training in Continuous Improvement through the implementation of Kaizen is designed to improve the set-up time efficiency, reduce preparation time prior to beginning a manufacturing project, foster work area organization, eliminate downtime, eliminate waste and bottlenecks, increase quality, reduce costs, and improve process flow, while increasing customer satisfaction.

As a result of Continuous Improvement training, production staff will be able to correctly read and calibrate tools, equipment and machinery. Workers will also gain techniques in problem solving and how to implement successful solutions, without having to go through management for approval. Officials at Saint-Gobain feel that training in group problem-solving will help resolve those "unsolvable" problems. As a result, manufacturing costs will be reduced and customer satisfaction will increase.

Under this proposal, 120 full-time production staff, support staff, engineers, technicians, leads, supervisors and managers will receive 40 hours of Class/Lab training in Continuous Improvement skills. Training will be provided by qualified in-house instructors and Saint-Gobain will provides its own project administration.

Supplemental Nature of Training

Saint-Gobain Performance Plastics has certified that this proposed training in Continuous Improvement is new training and supplemental to training that the company provides in the normal course of its business. The typical training classes offered at Saint-Gobain include safety training (both regulatory and job specific), forklift training, new-hire orientation, and ISO 9001 training at an annual budget of approximately $70,000. This training is part of the company's on-going training plan, will continue at the company's expense, and is not included in the ETP-funded portion of the proposed Agreement.

This proposal is a first-time attempt to establish a company-wide training program and development plan for the workforce that will begin the company's adaptation to a high performance workplace. Performance improvement in all company operations lies in the formal training of employees in Continuous Improvement skills that will ultimately lower manufacturing costs and increase customer satisfaction. As a result, the company will maintain its viability in the market. Officials of Saint-Gobain Performance Plastics state that in the absence of ETP funds, the company would not be able to dedicate the resources necessary for such an extensive program and may have to reduce the curriculum and training hours.

In-Kind Contribution

Saint-Gobain is committed to the continuation of training and skill development in its staff. The company estimates that its contribution to this training project is $92,208 in employee wages paid to trainees during ETP training.

COMMENTS:

Request for Waiver to Turnover Rate:

In accordance with California Code of Regulations, Section 4417, Secure Job, "The Panel may accept a higher than 20 percent turnover rate, . . . if the employer has experienced a singular reduction in force or other occurrence which adversely affected the turnover rate in the last calendar year. . .."

Saint-Gobain representatives state that they had a singular reduction in workforce in 2001 due to unforeseen events (described below) that caused the turnover rate of the company to jump from a low of 10.3 percent in 2000 to 65 percent in 2001. The company believes that the events of 2001 were a one-time anomaly and claim that the turnover rate has once again stabilized to a low of 0.7 percent January to April 2002 (annualized 8.4 percent).

According to the Contractor, the year 2000 was a record year for worldwide production of semiconductors. However, in 2001, the production of semiconductors and the need for new equipment to increase capacity, dropped dramatically. Due to weak demand for all products associated with semiconductor manufacturing, the company's sales in the Microelectronics unit experienced a 75 percent drop. As a result, the company was forced to layoff staff in that unit, and by December 2001, the company had reduced its head count in Microelectronics by 72 percent. This one-time reduction in the workforce caused the yearly turnover rate to increase from 10 percent in 2000 to 65 percent by the end of 2001. The company now projects a much stronger demand for its Microelectronics products in 2002 and 2003. The turnover rate has now stabilized at 0.7 percent from January to April 2002, and company officials project that the turnover rate will continue at the historic lows prior to 2001, of well below 20 percent.

The Contractor requests that ETP find its turnover rate to be acceptable based on a one-time anomaly.

PROPOSED ACTION:

Staff recommends that the Panel approve this Agreement if funds are available, the project meets Panel priorities, and contingent upon Panel approval of the company's higher turnover rate. This recommendation is based on Saint-Gobain Performance Plastics' stated need to provide its employees with high performance workplace skills to enhance the company's ability to remain competitive and to grow, and to ensure a continuing relationship with its customers. The implementation of this proposed training project will enable the company to remain viable in the California economy.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
JOB 1 Retrainees	Continuous Improvement	120	40			$520	$11.75 - $42.30
					Prevalent Hourly Wage $19.90		
					Average Cost per Trainee $520		
Health Benefit used to meet ETP minimum wage: N/A					**Turnover Rate** 65% (for 2001 only)		**% of Mgrs & Supervisors to be trained:** N/A

SAINT-GOBAIN PERFORMANCE PLASTICS
CURRICULUM

Hours
Class/Lab
Job 1

40

Trainees will be provided with the following:

CONTINUOUS IMPROVEMENT

- Value and non-value added activities
- Nine deadly wastes
- One piece flow concepts
- Introduction to Kaizen and 5-S Audits
- Observation/data gathering techniques
- Root cause analysis
- Analysis of data
- Group problem solving
- Improvement and implementation techniques
- Presentation skills
- Creation of 30-day action plan